



CITY OF FALLS CHURCH

INTEROFFICE MEMORANDUM

DATE: October 19, 2009

TO: Honorable Mayor Gardner and City Council Members

FROM: John Tuohy, Chief Financial Officer

THROUGH: Wyatt Shields, City Manager

SUBJECT: FY2010 Revenues

The revenue estimates included with the budget adopted by Council in April 2009 (FY10 effective July 1, 2009 to June 30, 2010) were developed January-March 2009 based in large part on historical information from 2008. As a result of additional analysis in September-October 2009, it is currently estimated that revenues for FY2010 will be approximately \$5.6 million below the levels adopted with the budget. The following table details the budget, the revised estimate and the differences.

	FY2010		
	ORIG BUDGET	REVISED PROJECTION	DIFFERENCE
Real Property Taxes	37,343,591	33,217,895	(4,118,821)
Personal Property Taxes	3,389,223	3,389,223	-
Other Local Taxes	9,979,400	8,871,400	(1,108,000)
Permit, Fees, and Licenses	3,173,681	3,071,790	(101,891)
Fines and Forfeitures	1,210,500	1,116,500	(94,000)
Revenue from Interest and Rent	269,200	95,200	(174,000)
Charges for Services	2,511,354	2,561,354	50,000
Miscellaneous	35,650	39,500	3,850
Gifts and Contributions	126,392	126,392	-
Recovered Costs	1,800,188	1,800,188	-
Grants:			
Commonwealth	3,974,814	3,925,422	(49,392)
Federal	579,287	579,287	-
Transfer from Water Fund	2,362,411	2,362,411	-
Total Revenues	66,748,816	61,156,562	(5,592,254)

The revenue estimates assume the current tax rates and fee schedules are in effect for the entire year.

A more detailed discussion of the elements of the City's revenues follows:

Real Estate Taxes

Real estate taxes make up 54% of the City's general fund revenues. The table below breaks out the calculation of the revised revenues.

Actual Billing, June 2009 (first half and second half are identical)	\$	17,391,634
First half 2010 estimated at 7.5% decrease from 2009		16,087,261
Less estimated uncollected, based on August 2009 uncollected from first half 2009		(400,000)
Less abatements, assuming appeals result in more abatements than new construction yields in supplemental assessments		(100,000)
Recalculated FY2010		<u>32,978,895</u>
Public Service Corporations – actual receipts FY2010		239,000
Total		<u>33,217,895</u>
Original budget		<u>37,343,591</u>
Difference		<u>(4,118,821)</u>

Real estate taxes are assessed on a calendar year basis and are due in two installments, June 5 and December 5. Because the City is on a fiscal year that begins in July and runs through June, the real estate taxes due in any fiscal year cross over two calendar years. The tax rate to be set with the FY2011 budget adopted by Council in April 2010 becomes effective with the bills due June 5 and thus affects the revenues for FY2010 as well as FY2011.

The assumption of a decline of 7.5% for calendar year 2010 assessments is based on information available through the first half of calendar 2009 projected for the entire year. The assumed changes by type of property are:

Property type	% of total	Percent change
Single Family	47.1%	-3.0%
Townhouse	10.3%	-5.0%
Condominium	12.7%	-12.0%
Commercial (includes apartments*)	29.9%	-13.0%
Aggregate change		<u>-7.5%</u>

*Apartments represent 5% of the total assessments.

There is very little new construction underway in the City.

Real estate tax estimates are extremely sensitive to changes in assessed values. A change of 1% in assessments can increase or decrease estimated receipts by \$166,000 for the June 2010 billing.

Personal Property Taxes

These taxes are levied on automobiles, boats and the tangible property of businesses. Personal property represents approximately 5.5% of general fund revenues. The annual bills were due October 5 and

receipts are in line with budget projections of \$3.4 million. The City also collects the decal fees at the same time as personal property taxes.

Since the City prorates personal property tax, there are supplemental billings for vehicles put on the rolls subsequent to the main billing and refunds for vehicles taken off the books. Because newer vehicles tend to be of higher value than vehicles that are disposed of, the net effect of proration tends to be positive.

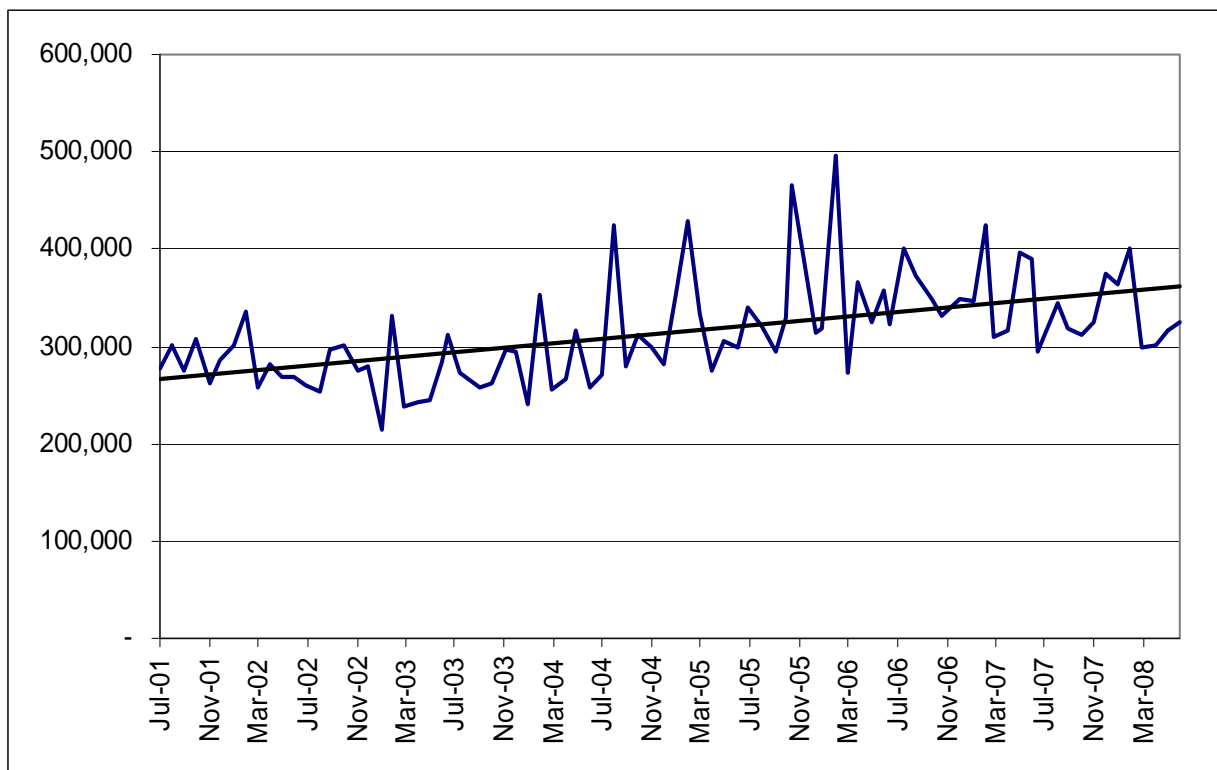
Other Local Taxes

The largest elements of this category are local sales taxes and meals taxes.

In addition to the effects of the downturn in the economy, the Virginia Department of Taxation corrected long-standing situs errors whereby Fairfax County businesses were erroneously reported as being located in Falls Church. In FY2009, the Department corrected the errors and retroactively deducted three prior years' misapplied sales tax receipts from the monthly transfers. The correction of the Falls Church accounts was part of a larger series of corrections that affected Alexandria, Fairfax, Fairfax City, Arlington and Loudoun County.

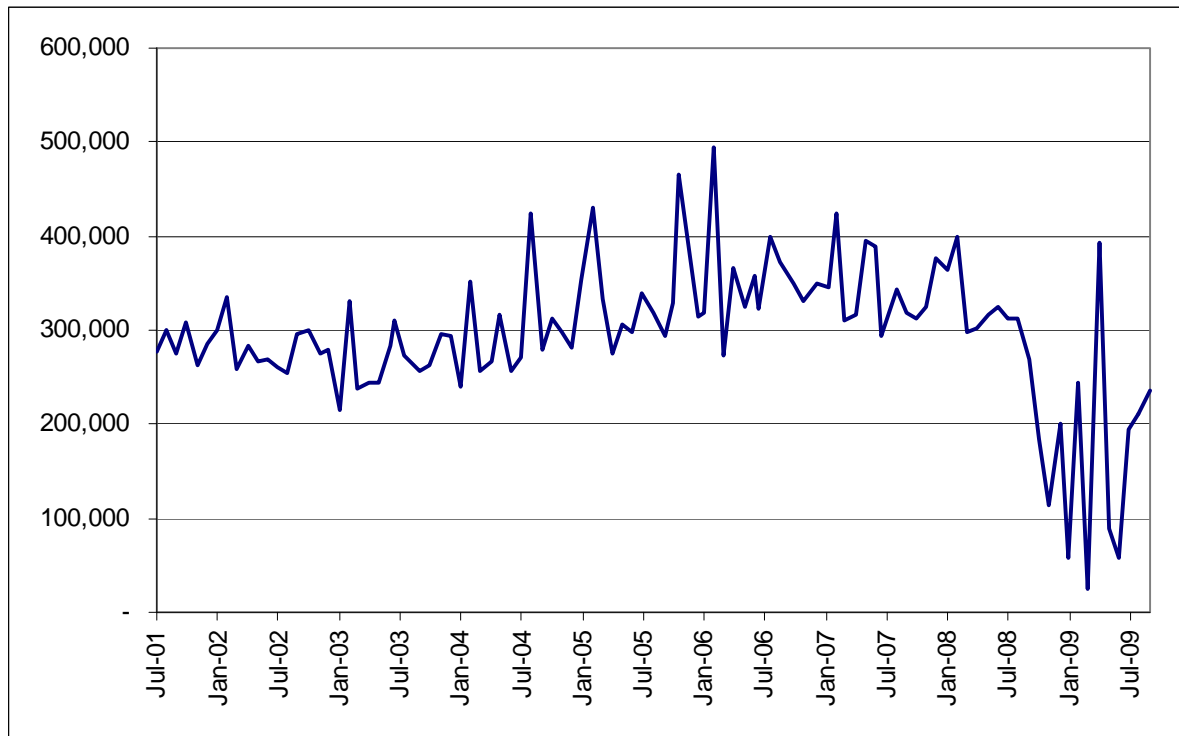
The first chart below shows monthly sales tax receipts from FY2002 through FY2008 with the trend line. The original revenue estimates for FY2010 were based on this data with a 15% downward revision to account for anticipated adverse economic conditions.

Monthly Sales Tax Receipts – July 2001 through June 2008



The same graph brought forward with receipts through the first quarter of FY2010 shows clearly the effect of the economy, situs adjustments and retroactive corrections.

Monthly Sales Tax Receipts – July 2001 through September 2009



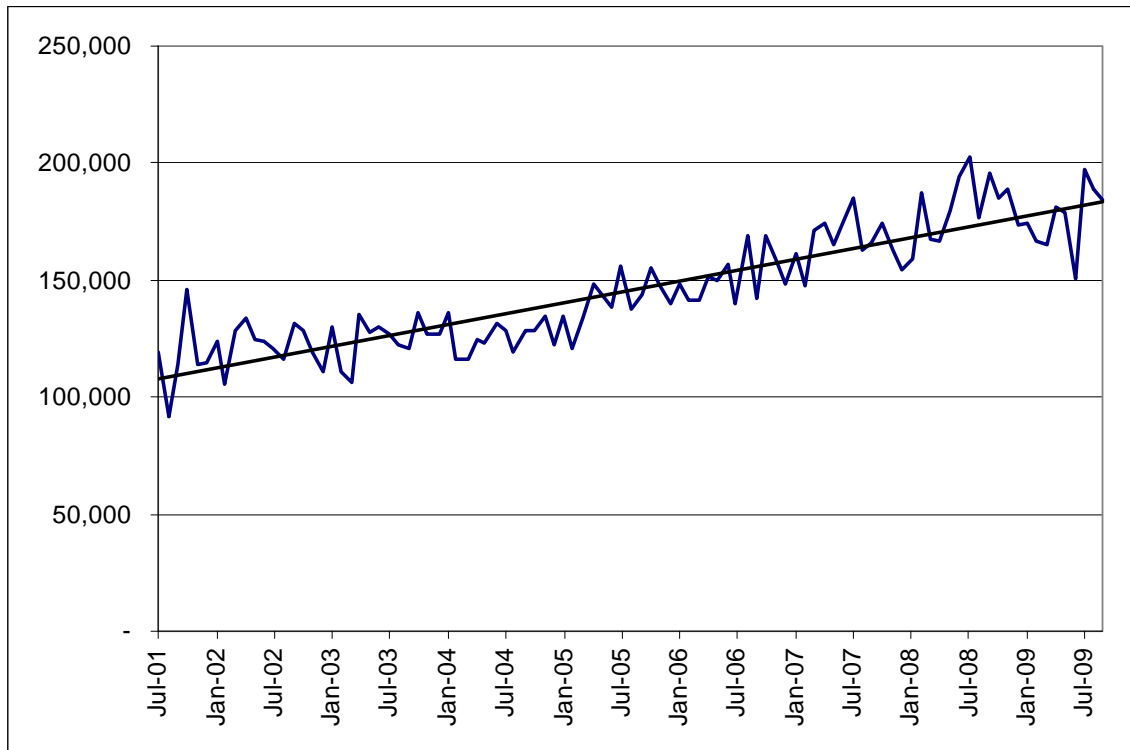
Average monthly receipts for FY2007-2008 were \$345,000 while the average for the first quarter of FY2010 is \$214,500. While the data supports a significant reduction in revenue estimates, there are not a sufficient number of monthly receipts to construct a trend with any confidence. Information on receipts from holiday sales will not be known until February 2010 because receipts lag two months behind the underlying transactions. Therefore, the estimate for FY2010 is conservative.

Meals tax has become an increasingly important revenue source for the City. For FY2010 it is likely to be approximately 3.5% of general fund revenues meals tax is estimated to be approximately \$2 million for FY2010. The meals tax is reported and collected locally through the office of the Commissioner of the Revenue and, therefore, confidence can be placed in the accuracy of the situs of the businesses. Several new establishments are slated to open over the next year.

Meals tax receipts averaged \$160,000 per month in FY2007, \$171,600 in FY2008 and \$178,200 in FY2009. For the first three months of FY2010 the average has been \$190,000. The estimate of \$2 million in total receipts for FY2010 may be considered easily achievable.

The graph below shows monthly meals tax receipts from FY2002 (beginning July 2001) through the first quarter of FY2010 with a trend line. As can be seen, receipts vary from month to month, but the trend is clearly positive.

Monthly Meals Tax Receipts – July 2001 through September 2009



Permits, Fees and Licenses

The largest element of this revenue category is Business and Professional Occupancy Licenses (BPOL). At \$2.7 million, this represents approximately 4.5% of general fund revenues. BPOL is sensitive to economic conditions as it is levied on the gross receipts of a business. The original estimate for FY2010 is 6.3% below FY2009 actual receipts. The largest decline is in the category of contracting services which covers business engaged in construction. BPOL is due the first of March each year.

Permit income is highly sensitive to the pace of construction activity in the City. In FY2007, the City collected almost \$758,000 in fees; by FY2009 that figure had dropped to \$316,000. Except for BJ's, there is no significant ongoing construction. The revenue estimate has been reduced to reflect this virtual halt in commercial activity. Some amount of construction and renovation continues for residential property.

Fines and Forfeitures

The revenue, net of expenses, expected from the red light camera program has been reduced by \$211,000 which assumes implementation the fourth quarter of FY2010. This is partially offset by an increase in revenues from moving violations based on actual activity through September due to increased Police enforcement.

Parking fines and Library fines make up 8.2% of fine revenues. These revenues have remained fairly stable over time.

Revenue from Interest and Rent

Income from investments is a decreasing element of City revenue. The effect of declining interest rates can be seen by comparing revenue for FY2007 of \$785,800, for FY2008 of \$399,700, and FY2009 of \$49,100. The decrease in investment income also affects the transfer from the Water Fund as a portion of that transfer is based on earnings on the Fund's investments.

The consensus among economists is that interest rates will continue at current levels (close to zero for US Treasury obligations) for an extended period. Virginia State Code requires the Treasurer to place City funds in very conservative investments.

Charges for Services

The single largest revenue in this category is fees charged by Parks and Recreation for classes, camps and other activities. The estimate of \$1.5 million represents 2.5% of general fund revenues. These revenues are on track to meet budget estimates for FY2010.

The increase of \$50,000 to estimated revenues is the result of ambulance fees being increased from \$250,000 to \$300,000 based on actual activity through August 2009.

Other charges for service include \$500,000 from Arlington for their share of Aurora House, \$65,000 in fees received for services provided to DMV by the Commissioner's office, and a variety of miscellaneous fees collected by the Sheriff, the Police and Public Works.

Revenue from the Commonwealth

The single largest revenue received from the Commonwealth is the subsidy for personal property taxes under the Personal Property Tax Relief Act (PPTRA). This \$2 million represents 3.3% of revenues in the general fund. Although this amount was capped several years ago, to date neither the Governor nor the General Assembly have proposed reducing the PPTRA payments to localities.

The current proposed reductions in State support for the Library, Police, Constitutional Officers, Courts and Registrar equal approximately 12% or \$125,000. This reduction is partially offset by \$75,000 of additional highway maintenance money to be received from VDOT this year.

The estimates of funding to be received from the State are based on information known at the beginning of October. The General Assembly meets in the winter and early spring, therefore the final numbers are likely to change.

The following glossary of terms also appears as an appendix to the City's adopted budget. The entire budget document is available on the City's website.

(<http://www.fallschurchva.gov/Content/Government/Departments/AdminServ/FY2010AdoptedBudget.pdf?cnlid=2103>)

Budget Glossary

Accrual Basis of Accounting – A method of accounting that recognizes the financial effect of transactions, events, and inter-fund activities when they occur, regardless of the timing of related cash flows.

Adopted Budget – The final operating and capital budget approved by the City Council after public hearings and amendments to the proposed budget, if applicable; becomes legal guidance to City management and departments for spending levels.

Advisory Referendum – A measure voted on by the general public in an election; refers to a specific question posed on a ballot which is non-binding and used to provide guidance to the elected representatives.

Appropriation – An authorization made by the City Council that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are granted for a one-year period.

Assessed Value – The fair market value placed upon real and personal property by the City as the basis for levying property taxes.

Assessment/Sales Ratio – Assessed value for each sale of real property divided by its selling price; used to determine if real property is assessed within a reasonable range of fair market value. The Commonwealth of Virginia requires that real property be assessed at 100 percent of fair market value. An acceptable assessment/sales ratio percentage is 70 percent or higher.

Balanced Budget – By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

Basis of Accounting – The timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes.

Bond Debt Instrument – A written promise to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal. Bonds are typically used for long-term debt to pay for specific capital expenditures.

Bond Ratings – A rating of quality given on any given bond offering as determined by an independent agency in the business of rating such offerings.

BPOL Tax – Business license or gross receipts tax, this item taxes the total revenues of a business.

Budget – A plan of financial operation including an estimate of proposed means of financing them (revenue estimates). The term also sometimes is used to denote the officially approved expenditure ceilings under which the City and its departments operate.

Budget Calendar – The schedule of key dates or milestones the City follows in the preparation and adoption of the budget.

BZA – Board of Zoning Appeals.

CAFR – Comprehensive Annual Financial Report

Capital Fund – Each year, the City adopts a five-year Capital Improvements Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund is funded through a transfer from the general, water and sewer funds, State aid and bond issues. The current year CIP is included as part of the annual budget. The capital fund is also used to account for projects that are capital in nature but do not meet the thresholds to be included in the CIP.

Capital Improvements Program (CIP) – A five-year plan of proposed capital expenditures for long-term improvements to City facilities including water, sewer, transit and schools; identifies each project and source of funding. To be included in the CIP a project must be estimated to cost more than \$100,000 and have a useful life in excess of one year.

Capital Outlay – An appropriation or expenditure category for government assets with a value of \$5,000 or more and a useful economic life of one year or more.

Carryforward (carryover) – Funds in the School Division budget unexpended in one year that are used as a funding source for the subsequent year. This is required by 6.18 of the City Charter.

Coefficient of Dispersion – Represents the mean percentage deviation from a median.

Comprehensive Annual Financial Report (CAFR) – The annual report that represents a locality's financial activities and contains the independent auditor's reports on compliance with laws, regulations and internal controls over financial reporting based on an audit of financial statements performed in accordance with "Government Auditing Standards."

COG – Metropolitan Washington Council of Governments – an independent, nonprofit association of 17 member governments located in the Washington metropolitan region.

Constitutional Officers – Officials elected to four-year terms of office who are authorized by the Constitution of Virginia to head City departments; the Treasurer, the Commissioner of Revenue, and the Sheriff in the City.

Consumer Price Index (CPI) – A measure, calculated by the United States Department of Labor, commonly used to indicate the rate of inflation.

Contingency – A budgetary reserve set aside for emergencies or unforeseen expenditures for which no other budget exists.

CSA – Comprehensive Services Act.

GEORGE Bus – Provides bus service to City residents and visitors.

CY – Calendar year.

Debt Per Capita – Total outstanding debt divided by the population of the City.

Debt Ratio – A measure used that determines the annual debt service or outstanding debt as a percentage of some other item which is generally an indication of the ability of the City to repay the debt; examples include annual debt service as a percentage of total annual expenditures and total outstanding debt as a percentage of total assessed value.

Debt Service – The payment of interest and principal to holders of the City’s debt instruments.

E-911 Tax – This is a tax on telephone usage to pay for fire and police emergency dispatch operations.

Economic Development Authority (EDA) – Responsible for encouraging industrial and commercial development in the City.

Encumbrance – A reservation of funds that represents a legal commitment, often established through contract, to pay for future goods or services.

Enterprise Funds – Account for the financing of services to the general public whereby all or most of the operating expenses involved are recorded in the form of charges to users of such services. The enterprise funds consist of the Sewer Utility Fund and the Water Utility Fund.

Expenditure – Actual outlay of monies for goods or services.

Expenses – Expenditures and encumbrances for goods and services.

Fair Market Sales – Defined as an “arm’s length” transaction where there is a willing buyer and a willing seller, neither of which is under pressure to sell or buy. This excludes transfers such as sales within a family, foreclosures, or sales to a governmental unit.

Fringe Benefits – The employer contributions paid by the City as part of the conditions of employment. Examples include health insurance, state public employees retirement system and the City retirement system.

Fiscal Year (FY) – Section 6.01 of the City’s charter sets the fiscal year as July 1 through June 30.

Full-Time Equivalent (FTE) – A measure of determining personnel staffing, computed by equating 2,080 hours of work per year (2,912 for firefighters) with one full-time equivalent position.

Fund – An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Fund Balance – The excess of an entity’s assets over its liabilities; also known as excess revenues over expenditures. A negative fund balance is sometimes called a deficit.

GAAP – Generally Accepted Accounting Principles. These form the basis of the City’s accounting and financial reporting.

GASB – Governmental Accounting Standards Board – an organization that provides the ultimate authoritative accounting and financial reporting standards for state and local governments.

General Fund – Used to account for all general operating expenditures and revenues, this is the City’s largest fund. Revenues in the general fund primarily are from property taxes, sales tax, the business license tax and State aid.

General Obligation Bond – A bond for which the full faith and credit of the City is pledged for payment.

Infrastructure – Public systems and facilities, including water and sewer systems, roads, bridges, public transportation systems, schools and other utility systems.

Internal Service Charges – Charges to City departments for assigned vehicle repairs and maintenance provided by the motor pool division.

IT – Information technology.

Lease Financing Instrument – Financial obligation which is not the general obligation debt of the City for which the full faith and credit of the City is pledged for payment.

Median Household Income – Median denotes the middle value in a set of values, in this case, household income.

MGD – Million gallons per day.

MIS Services – Management information services generally referring to information technology products and services.

MISS UTILITY – An organization that tracks utilities so that, in accordance with the Underground Utility Protection Law, anybody who wants to dig in the ground for any purpose can determine where utilities are located.

Modified Accrual Basis of Accounting – Basis of accounting according to which revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which are recognized when due.

Non-Departmental Accounts – Accounts used to record expenditures that cannot or have not been allocated to individual departments.

NVTC – Northern Virginia Transportation Commission.

Object – As used in expenditure classification, this term applies to the type of item purchased or the service obtained (as distinguished from the results obtained from expenditures). Examples are personnel services, contractual services and materials and supplies.

OPEB – Other Post Employment Benefits. These are benefits offered to retirees in addition to a retirement plan. The City offers retiree health insurance and life insurance.

Open Space Fund – The open space fund was established to fund acquisition of open space and parkland in the City.

Performance Measure – An indicator of the attainment of an objective; it is a specific quantitative measure of work performed or services provided within an activity or program, or it may be a quantitative measure of results obtained through a program or activity.

Personal Property Tax (PP) – A City tax levied on motor vehicles and boats based on published listings of values, and on machinery and tools based on a percentage of cost.

Proposed Budget – The operating and capital budgets submitted to the City Council by the City Manager.

Proprietary Fund – A fund that accounts for operations that are financed in a manner similar to private business enterprise; consists of enterprise funds.

Public Service Corporation (PSC) – An entity defined by the Commonwealth of Virginia as providing utilities to residents and businesses; includes power companies, phone companies, gas companies, and other similar type organizations.

Real Estate Tax (R/E) – A tax levied by the City Council on real property in the City of Fairfax; real property is defined as land and improvements on the land (buildings).

Reserve – An account used to indicate that a portion of fund equity is legally restricted.

Revenue – The income received by the City in support of a program of services to the community; includes such items as property taxes, fees, user charges, grants, fines and forfeitures, interest income and miscellaneous revenue.

Revenue Estimate – A formal estimate of how much revenue will be earned from a specific revenue source for some future period – typically a future fiscal year.

ROW – Right-of-way.

Salaries – The amounts paid for personal services rendered by employees in accordance with rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime and temporary help.

SUP – Special use permit as in zoning.

Supplies and Material – The expenditure classification used in the budget to cover office and operating supplies, construction materials, chemicals, fuels, and repair parts.

Tax Rate – The amount of tax levied for each \$100 of assessed value.

Transient Occupancy or Lodging Tax – Tax on stays at hotels and motels of less than 30 days duration.

UCR based reporting – Uniform Crime Reporting; move is toward incident based reporting (IBR).

User Fees – The payment of a fee for direct receipt of a public service by the person benefiting from the service.

Utility Funds – Sewer and water services are accounted for in the utility funds. The sewer fund and water fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

VML – Virginia Municipal League – a nonprofit association of City, town and county officials that provides member services to Virginia local governments.

WMATA – Washington Metropolitan Area Transit Authority, the regional agency that operates the METRO bus and subway systems expenditures.